

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its September 2003 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.6% in 2003, 4.1% in 2004, 3.7% in 2005, and 3.6% 2006;
- U.S. nonfarm employment declines 0.2% in 2003, but grows 1.6% in 2004, 2.0% in 2005, and 1.7% in 2006;
- U.S. civilian unemployment rate peaks at 6.2% this year and falls gradually to 5.9% by 2006;
- inflation is 2.3% in 2003, 1.2% in 2004, and 1.8% in both 2005 and 2006;
- the federal government deficit peaks at one half trillion dollars in 2004;
- and the current account balance deficit climbs to \$702 billion in 2006.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in opposite directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. A major factor in each scenario is the war with Iraq. Both alternatives and their impacts on the Idaho economy are discussed below.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. This scenario reflects the effects of several major assumptions. First, foreign economic growth is anticipated to be stronger than in the baseline in 2004 and 2005. This boosts exports. Second, this forecast assumes state and local governments spend faster than in the baseline. Third, the price of oil is slightly lower than in baseline forecast. Fourth, corporate profits are higher than in the baseline, and so is the stock market.

In this scenario the economy grows 4.5% in 2004 and 4.0% in 2005, compared with 4.1% and 3.7% in the baseline. Not surprisingly, employment growth is also higher, with nonfarm employment up 628,000 in 2004 and up 923,000 in 2005. This helps the unemployment rate decline more steeply than in the baseline. Specifically, it is 5.9% in 2004, versus the baseline's 6.1%. And by 2006 the U.S. unemployment rate is near full employment at 5.5%. It is 5.9% in the baseline. Because of the stronger economic growth, monetary policy is assumed to be slightly tighter in this scenario compared with the baseline. On the other hand, fiscal policy is the same as in the baseline.

The sunnier U.S. business climate warms up Idaho economic growth, with the biggest improvements occurring next year and in 2005. This can be seen in both the employment and income numbers. As the table shows, Idaho nonfarm employment grows slightly faster than its baseline counterpart in both of these years. Both the goods- and nongoods-producing sectors are stronger than their respective baseline counterparts. It should also be noted that the expected 2.1% growth in 2005 is the first time since 2000 Idaho total nonfarm employment expands faster than 2.0%. Idaho real personal income is also bumped up in 2004 and 2005. Specifically, this closely watched measure of economic health is anticipated to rise 4.6% this year and 3.4% in 2005. In the *Baseline Scenario* Idaho real personal income increases 4.3% in 2005 and 3.2% in 2006.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
OCTOBER 2003

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
GDP (BILLIONS)															
Current \$	10,446	10,882	11,468	12,086	12,729	10,446	10,885	11,519	12,178	12,825	10,446	10,878	11,353	11,834	12,461
% Ch	3.6%	4.2%	5.4%	5.4%	5.3%	3.6%	4.2%	5.8%	5.7%	5.3%	3.6%	4.1%	4.4%	4.2%	5.3%
1996 Chain-Weighted	9,440	9,684	10,080	10,453	10,827	9,440	9,687	10,126	10,531	10,889	9,440	9,681	9,985	10,265	10,656
% Ch	2.4%	2.6%	4.1%	3.7%	3.6%	2.4%	2.6%	4.5%	4.0%	3.4%	2.4%	2.6%	3.1%	2.8%	3.8%
PERSONAL INCOME - CURR \$															
Idaho (Millions)	33,585	34,986	36,942	38,803	40,942	33,585	34,990	37,047	38,998	41,157	33,585	34,983	36,698	38,090	40,063
% Ch	3.8%	4.2%	5.6%	5.0%	5.5%	3.8%	4.2%	5.9%	5.3%	5.5%	3.8%	4.2%	4.9%	3.8%	5.2%
U.S. (Billions)	8,922	9,225	9,708	10,222	10,782	8,922	9,226	9,744	10,298	10,871	8,922	9,224	9,644	10,022	10,520
% Ch	2.7%	3.4%	5.2%	5.3%	5.5%	2.7%	3.4%	5.6%	5.7%	5.6%	2.7%	3.4%	4.6%	3.9%	5.0%
PERSONAL INCOME - 1996 \$															
Idaho (Millions)	30,239	30,927	32,247	33,280	34,500	30,239	30,932	32,358	33,449	34,615	30,239	30,924	32,047	32,728	33,882
% Ch	2.4%	2.3%	4.3%	3.2%	3.7%	2.4%	2.3%	4.6%	3.4%	3.5%	2.4%	2.3%	3.6%	2.1%	3.5%
U.S. (Billions)	8,033	8,154	8,474	8,767	9,086	8,033	8,156	8,511	8,832	9,143	8,033	8,153	8,421	8,611	8,897
% Ch	1.3%	1.5%	3.9%	3.5%	3.6%	1.3%	1.5%	4.4%	3.8%	3.5%	1.3%	1.5%	3.3%	2.3%	3.3%
TOTAL NONFARM EMPLOYMENT															
Idaho	568,015	572,579	579,786	590,559	601,327	568,015	572,617	580,768	592,737	603,608	568,015	572,538	577,295	583,766	593,359
% Ch	0.0%	0.8%	1.3%	1.9%	1.8%	0.0%	0.8%	1.4%	2.1%	1.8%	0.0%	0.8%	0.8%	1.1%	1.6%
U.S. (Thousands)	130,376	130,055	132,127	134,741	137,057	130,376	130,210	132,755	135,664	137,993	130,376	130,038	131,527	133,063	135,270
% Ch	-1.1%	-0.2%	1.6%	2.0%	1.7%	-1.1%	-0.1%	2.0%	2.2%	1.7%	-1.1%	-0.3%	1.1%	1.2%	1.7%
GOODS PRODUCING SECTOR															
Idaho	105,025	102,167	100,573	100,347	100,412	105,025	102,189	101,024	101,229	101,159	105,025	102,138	99,055	97,265	98,221
% Ch	-4.7%	-2.7%	-1.6%	-0.2%	0.1%	-4.7%	-2.7%	-1.1%	0.2%	-0.1%	-4.7%	-2.7%	-3.0%	-1.8%	1.0%
U.S. (Thousands)	22,620	22,020	21,921	22,204	22,497	22,620	22,030	21,989	22,369	22,676	22,620	22,017	21,701	21,545	21,771
% Ch	-5.3%	-2.7%	-0.4%	1.3%	1.3%	-5.3%	-2.6%	-0.2%	1.7%	1.4%	-5.3%	-2.7%	-1.4%	-0.7%	1.0%
NONGOODS PRODUCING SECTOR															
Idaho	462,990	470,412	479,214	490,212	500,915	462,990	470,428	479,744	491,508	502,449	462,990	470,400	478,240	486,500	495,138
% Ch	1.1%	1.6%	1.9%	2.3%	2.2%	1.1%	1.6%	2.0%	2.5%	2.2%	1.1%	1.6%	1.7%	1.7%	1.8%
U.S. (Thousands)	107,756	108,035	110,205	112,538	114,560	107,756	108,180	110,766	113,295	115,316	107,756	108,022	109,826	111,518	113,499
% Ch	-0.2%	0.3%	2.0%	2.1%	1.8%	-0.2%	0.4%	2.4%	2.3%	1.8%	-0.2%	0.2%	1.7%	1.5%	1.8%
SELECTED INTEREST RATES															
Federal Funds	1.7%	1.1%	1.1%	1.9%	2.3%	1.7%	1.1%	1.1%	1.9%	2.5%	1.7%	1.1%	0.4%	0.2%	0.3%
Bank Prime	4.7%	4.1%	4.1%	4.9%	5.3%	4.7%	4.1%	4.1%	4.9%	5.5%	4.7%	4.1%	3.4%	3.3%	3.3%
Existing Home Mortgage	6.5%	6.0%	6.6%	6.9%	6.9%	6.5%	6.0%	6.5%	6.8%	6.9%	6.5%	6.0%	6.3%	6.2%	6.1%
INFLATION															
GDP Price Deflator	1.1%	1.5%	1.3%	1.6%	1.7%	1.1%	1.5%	1.2%	1.7%	1.8%	1.1%	1.5%	1.2%	1.4%	1.4%
Personal Cons Deflator	1.4%	1.9%	1.3%	1.8%	1.8%	1.1%	1.5%	1.2%	1.7%	1.8%	1.4%	1.9%	1.2%	1.6%	1.6%
Consumer Price Index	1.6%	2.3%	1.2%	1.8%	1.8%	1.6%	2.3%	1.2%	1.8%	2.0%	1.6%	2.3%	1.2%	1.6%	1.6%

Forecast Begins the SECOND Quarter of 2003

PESSIMISTIC SCENARIO

This *Pessimistic Scenario* has also been assigned a 20% probability of occurrence. In this scenario consumers choose to save their tax windfalls instead of spending them. This move reflects consumers' concerns about the weak job market, low returns on savings, rising state taxes and fees, and life after retirement. After a brief surge in spending in 2004, real spending growth decelerates. The personal savings rate jumps from 3.6% in 2003 to 4.2% in 2004, and then it drifts down to 3.6% in 2006. In the *Baseline Scenario* the savings rate goes from 4.1% in 2004 to 3.8% in 2006. This attempt at thrift backfires. While businesses do resume hiring, the creation of new jobs lags labor force growth, causing the unemployment rate to rise and wage increases to shrink. In this slow-growth environment businesses are hesitant to invest.

The Federal Reserve lowers the federal funds rate to 0.75% in January 2004 when it recognizes fiscal policy is not doing the job of moving the economy forward. Frustrated by the effectiveness of its own policies, the Central Bank lowers rates two more time to 0.25%. By late 2005, a weakening dollar begins to amplify the effects of the Federal Reserve's expansionary monetary policy. Net exports begin to rise, generating a pickup in industrial activity, investment, and job growth. With inflation rates remaining under 2.0%, the Federal Reserve does not raise rates during the forecast period.

The Idaho economy grows slower in this scenario compared to the *Baseline Scenario*. Again, the most significant differences are in 2004 and 2005. In this scenario Idaho nonfarm employment manages just 0.8% growth in 2004 and ekes out 1.1% growth in 2005. In comparison, Idaho nonfarm employment advance 1.3% and 1.9% in the baseline. Not surprising, Idaho real personal income also grows slower than its baseline counterpart in both next year and 2005. Specifically, real personal income is forecast to rise 4.3% in 2004 and 3.2% in 2005 in the baseline. In the *Pessimistic Scenario* it increases by 3.6% in 2004 and 2.1% in 2005.